

WEST DES MOINES WATER WORKS
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
AUDITOR'S REPORT ON COMPLIANCE
SCHEDULE OF FINDINGS
DECEMBER 31, 2005 and 2004

WEST DES MOINES WATER WORKS

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WEST DES MOINES WATER WORKS

OFFICIALS

December 31, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
W. Kent Gaer	Trustee	Dec 31, 2005
James E. Wallace	Trustee	Dec 31, 2006
Ronald H. Degen	Trustee	Dec 31, 2008
William B. Spencer	Trustee	Dec 31, 2009
Philip J. Dorweiler	Trustee	Dec 31, 2010
Jerald W. Stevens	General Manager/Secretary	Indefinite
William H. Garrett	Assistant General Manager	Indefinite
John R. Luther	Superintendent	Indefinite
Paula R. Meyer	Accountant/Treasurer	Indefinite



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
West Des Moines Water Works

We have audited the accompanying financial statements, as listed in the table of contents of this report, of the West Des Moines Water Works, West Des Moines, Iowa, as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of West Des Moines Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the West Des Moines Water Works, West Des Moines, Iowa, as of December 31, 2005 and 2004, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2006 on our consideration of the West Des Moines Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and page 30 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplementary information included on pages 32 through 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the aforementioned financial statements taken as a whole.

The accompanying statistical section on page 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Martens & Company, CPA, LLP

West Des Moines, Iowa
February 8, 2006

WEST DES MOINES WATER WORKS

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

The management's discussion and analysis (MD&A) of West Des Moines Water Works' (Water Works) financial performance provides an overview of the Water Works' financial activities for the year ended December 31, 2005 and 2004. Please consider this information in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

OVERVIEW OF BUSINESS

The service area of the Water Works has expanded significantly since its governing Board of Trustees was established by election in 1950. The service area is the corporate limits of West Des Moines. The Water Works also provides billing and collection services on a contractual basis to the City of West Des Moines for sanitary sewer usage and solid waste collection, and meter reading service to the City of Clive and the City of Waukee.

As the Water Works' service area has expanded, so too has the need for water storage facilities, booster stations and additional treatment capacity to meet peak demand requirements. The most economical approach for the Water Works has involved requiring the land developers to install the water mains according to Water Works Specifications after which the Water Works accepts ownership of the water facilities.

The water sources for the Water Works are three wells drilled into the Jordan Aquifer and nineteen wells that draw water from the Racoon River Alluvial Aquifer. In addition, some West Des Moines water is purchased from the Des Moines Water Works.

Governance of the Water Works is vested in a five-member Board appointed by the Mayor of West Des Moines with approval of the City Council. Trustees serve for six-year staggered terms. The Board has complete control of the Water Works' management, and employs 36 full-time and three part-time seasonal employees.

FINANCIAL HIGHLIGHTS

West Des Moines Water Works' net assets increased as a result of operations. At December 31, 2005, total assets were \$66,168,780 and total liabilities were \$25,031,551 resulting in net assets of \$41,137,229.

Operating revenues increased 6.31% to \$8,504,802 while operating expenses increased 3.94% to \$6,691,410.

During the year, the Water Works had an operating income of \$1,813,392 and an increase in net assets of \$1,147,713.

OVERVIEW OF THE FINANCIAL STATEMENTS

MD&A serves as an introduction to the financial statements, and the MD&A represents management's examination and analysis of West Des Moines Water Works' financial condition and performance. The financial statements report information about the utility using full accrual accounting methods as utilized by similar entities in the private sector.

The statement of net assets provides information about the Water Works' assets, liabilities, and net assets, thereby measuring the utility's liquidity and solvency. Liquidity is a measure of the Water Works' ability to meet current obligations (those due within one year). Solvency is a similar concept, but measures the ongoing ability to meet obligations over a longer term.

The statement of revenues, expenses, and changes in net assets presents the results of the Water Works' revenues and expenses over the course of the year and provides information about the Water Works' recovery of costs. Water rates and other charges are established by the Board of Trustees and are based on Water Works' cost analysis.

The statement of cash flows presents cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities, and investing activities. This statement details where cash resources come from and how they are used.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes supplement the basic financial statements by presenting information about the Water Works' accounting policies, significant account balances and activities, material risks, obligations, and commitments.

CONDENSED FINANCIAL INFORMATION

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Balance Sheet Information

	2005	2004
Current assets	\$ 5,687,715	\$ 6,153,099
Restricted assets	7,430,733	6,946,539
Capital assets, net	52,844,587	51,227,465
Other assets	<u>205,745</u>	<u>229,252</u>
Total assets	<u>66,168,780</u>	<u>64,556,355</u>
Current liabilities	3,568,473	3,957,182
Long term liabilities	19,379,399	20,580,281
Other liabilities	<u>2,083,679</u>	<u>29,376</u>
Total liabilities	<u>25,031,551</u>	<u>24,566,839</u>
Invested in capital assets, net of related debt	30,267,056	29,402,053
Restricted	5,554,103	5,182,365
Unrestricted	<u>5,316,070</u>	<u>5,405,098</u>
Total net assets	<u>\$ 41,137,229</u>	<u>\$ 39,989,516</u>

Condensed Revenues, Expenses, and Changes in Net Assets

	2005	2004
Water sales	\$ 6,766,835	\$ 6,266,142
Connection fees	721,199	814,945
Other sales and services	<u>1,016,768</u>	<u>918,624</u>
Total operating revenue	<u>8,504,802</u>	<u>7,999,711</u>
Salaries and benefits	2,342,704	2,246,905
Chemicals and power	662,775	571,468
Purchased water	553,622	502,991
Insurance	109,869	100,435
Maintenance and supplies	730,621	680,613
Depreciation	1,917,342	1,896,668
Other	<u>374,477</u>	<u>438,600</u>
Total operating expenses	<u>6,691,410</u>	<u>6,437,680</u>
Operating income	<u>1,813,392</u>	<u>1,562,031</u>
Interest income	343,289	132,424
Rental income	111,862	106,475
Interest expense	(1,235,075)	(1,190,724)
Other, net	<u>(25,847)</u>	<u>(151,411)</u>
Total non-operating revenues (expenses)	<u>(805,771)</u>	<u>(1,103,236)</u>
Income before contributions	1,007,621	458,795
Capital contributions	<u>140,092</u>	<u>344,194</u>
Change in net assets	<u>1,147,713</u>	<u>802,989</u>
Net assets, beginning of year	<u>39,989,516</u>	<u>39,186,527</u>
Net assets, end of year	<u><u>\$ 41,137,229</u></u>	<u><u>\$ 39,989,516</u></u>

FINANCIAL ANALYSIS

Current assets (not restricted) decreased 7.56% primarily due to the 1997 bond refunding in 2004 and the amortization of the deferred amount on bond refunding in 2005.

Current liabilities decreased 9.82% primarily due to a decrease in construction payables in the amount of \$441,069 for water system improvements.

Long-term liabilities decreased 5.84% due to principal payments on debt service, and reclassification of 2006 scheduled payments to short term.

Water sales increased 7.99% due to the warm, dry conditions in 2005 compared with 2004 which caused an increase in irrigation water sold.

Connection fees decreased 11.50% primarily due to a decrease in billings for the Southwest Area Connection Fee District in 2005.

Other sales and services increased 10.68% for a variety of reasons which included the following. Basic service charges increased by 3.51% or \$23,427 due to an increase in the number of accounts billed.

Late and non-payment charges increased by 4.14% or \$3,726, and construction inspection fees increased by 191.0% or \$15,048. Water Works also began reading meters for the cities of Clive and Waukee in November, 2005, with meter reading fees for two months totaling \$11,741.

Chemicals and power expenses increased 15.98% due to an increase in the amount of water produced in 2005, and also due to an increase in the cost of natural gas.

Purchased water expense increased 10.07% primarily due to an increase in irrigation water sold in 2005.

Cost of corporate insurance increased 9.39% due to expected and budgeted insurance coverage increases in the insurance industry.

Maintenance and supplies expense increased 7.35% as budgeted and expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

During 2005, net capital assets increased \$1,617,122 or 3.16%. In addition to replacing unlined cast iron water mains, the Water Works is engaged in a multi-year capital project to build a 2.5 million gallon water tower that is being shared with the cities of Clive and Waukee. The water tower was put into service in November, 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

West Des Moines Water Works does not receive any federal, state, or city funding, therefore the slowing of the national economy and state funding cuts have not had an impact on operations. The Board of Trustees approved a conservative operating budget increase for 2006 with revenues projected to increase by 3.5% and expenses projected to increase by 7.0%. The water rates were raised from \$3.05 to \$3.25 per 1,000 gallons; a 6.56% increase. These rates had not been changed since 1998, and this increase amounts to an average of less than 1% per year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of West Des Moines Water Works' finances. If you have any questions or require additional information, please contact the General Manager at 4200 Mills Civic Parkway, Suite 1D, or by mail to the West Des Moines Water Works, PO Box 65610, West Des Moines, IA 50265-0610.

WEST DES MOINES WATER WORKS

STATEMENTS OF NET ASSETS

December 31, 2005 and 2004

See notes to financial statements.

ASSETS				LIABILITIES AND NET ASSETS	
	2005	2004		2005	2004
CURRENT ASSETS			CURRENT LIABILITIES		
Cash	\$ 2,564,291	\$ 3,686,764	Accounts payable	\$ 162,243	\$ 193,292
Investments	2,315,149	1,361,520	Accrued payroll	62,426	59,525
Accounts receivable	553,369	592,266	Accrued vacation	93,702	82,108
Inventory	60,698	59,305	Accrued sales tax	29,768	32,787
Unexpired insurance	55,756	54,112	Deferred revenue	40,868	-
Unamortized bond discount	9,206	9,206	Bond premium	2,448	2,448
Unamortized bond issue costs	14,300	14,300	Accrued interest payable	48,910	52,562
Deferred amount on bond refunding	-	356,783	Current portion of long-term debt	1,078,968	1,095,687
Accrued interest receivable	114,946	18,843		1,519,333	1,518,409
	<u>5,687,715</u>	<u>6,153,099</u>			
RESTRICTED ASSETS			Payable from restricted assets:		
Cash	438,438	594,926	Customer deposits	203,926	201,667
Investments	5,503,290	4,908,691	Accounts payable	233,530	674,599
Accounts receivable for City of WDM	502,457	552,921	Payable to City of West Des Moines	1,611,684	1,562,507
Accounts receivable	95,685	-		<u>2,049,140</u>	<u>2,438,773</u>
Deposit - water revenue bond fund	890,863	890,001			
	<u>7,430,733</u>	<u>6,946,539</u>			
			Total current liabilities	<u>3,568,473</u>	<u>3,957,182</u>
Total current assets	<u>13,118,448</u>	<u>13,099,638</u>			
CAPITAL ASSETS			LONG-TERM LIABILITIES		
Land	592,548	592,548	Revenue Bonds - net of current portion	<u>19,379,399</u>	<u>20,580,281</u>
Buildings and structures	19,038,089	15,799,123	Total long-term liabilities	<u>19,379,399</u>	<u>20,580,281</u>
Machinery and equipment	8,182,948	8,129,466			
Mains and hydrants - constructed by Water Works	18,207,092	16,525,611	OTHER LIABILITIES		
Mains and hydrants - contributed by developers	14,122,172	13,982,080	Deposit - shared water tower	61,021	-
Wells	4,748,318	4,748,318	Deferred revenue	1,995,730	-
Meters	2,486,021	2,340,253	Bond premium	26,928	29,376
Treatment plant capacity - Des Moines Water Works	6,819,125	6,819,125	Total other liabilities	<u>2,083,679</u>	<u>29,376</u>
Construction in progress	222,459	2,142,398			
	<u>74,418,772</u>	<u>71,078,922</u>	Total liabilities	<u>25,031,551</u>	<u>24,566,839</u>
Less accumulated depreciation	<u>(21,574,185)</u>	<u>(19,851,457)</u>			
			NET ASSETS		
Net capital assets	<u>52,844,587</u>	<u>51,227,465</u>	Invested in capital assets, net of related debt	30,267,056	29,402,053
			Restricted for debt service	2,611,976	2,617,884
OTHER ASSETS			Restricted for capital improvements	2,942,127	2,564,481
Unamortized bond discount	76,226	85,433	Unrestricted	5,316,070	5,405,098
Unamortized bond issue costs	<u>129,519</u>	<u>143,819</u>	Total net assets	<u>41,137,229</u>	<u>39,989,516</u>
Total other assets	<u>205,745</u>	<u>229,252</u>			
Total Assets	<u>\$ 66,168,780</u>	<u>\$ 64,556,355</u>			
			Total Liabilities and Net Assets	<u>\$ 66,168,780</u>	<u>\$ 64,556,355</u>

WEST DES MOINES WATER WORKS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Sale of water	\$ 6,766,835	\$ 6,266,142
Basic service charge	689,966	666,539
Connection fees	721,199	814,945
EPA grant	10,295	-
Labor charges	30,539	21,500
Sanitary sewer service collection fees	42,845	41,590
Solid waste service collection fees	40,463	39,991
Late and non-payment charges	93,702	89,976
Sale of materials	43,286	34,805
Meter reading fees	11,741	-
Shared water tower revenue	6,811	-
Miscellaneous	47,120	24,223
Total operating revenues	<u>8,504,802</u>	<u>7,999,711</u>
OPERATING EXPENSES		
Water treatment plant operation and maintenance		
Salaries	571,887	532,211
Retirement and employee benefits	168,089	145,191
Utilities	310,733	295,784
Chemicals	283,723	210,183
Purchased water	553,622	502,991
Maintenance	265,935	219,846
Lime residuals removal	144,607	121,556
Insurance	52,551	49,312
Supplies	20,873	15,328
Communications	16,947	13,587
Water quality testing fees	10,127	5,195
Miscellaneous	7,553	6,223
Operation permit	6,604	5,877
Safety consulting fees	1,275	1,490
Depreciation	925,159	954,358
Data processing	18,890	13,004
	<u>3,358,575</u>	<u>3,092,136</u>
Water distribution system operation and maintenance		
Salaries	555,916	533,389
Retirement and employee benefits	174,786	149,955
Maintenance	180,184	220,820
Utilities	62,961	60,215
Insurance	34,650	30,733
Supplies	24,021	13,914

See notes to financial statements.

WEST DES MOINES WATER WORKS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - CONTINUED

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING EXPENSES - CONTINUED		
Water distribution system operation and maintenance - continued		
Miscellaneous	\$ 1,854	\$ 687
Iowa One Call	4,661	5,048
Communications	3,983	5,177
Depreciation	884,357	829,139
Data processing	16,989	17,602
	<u>1,944,362</u>	<u>1,866,679</u>
Accounting and customer service		
Salaries	500,598	490,009
Retirement and employee benefits	135,634	122,694
Postage	83,949	80,636
Printing	54,545	58,696
Insurance	22,668	20,390
Supplies	14,635	14,042
Communications	4,479	5,961
Maintenance	20,650	14,625
Bad debts	6,581	3,722
Lock box charges	34,269	40,742
Miscellaneous	3,959	3,275
Utilities	5,358	5,286
Depreciation	107,826	113,171
Cost of materials sold	29,368	27,968
Data processing	23,590	29,465
	<u>1,048,109</u>	<u>1,030,682</u>
Administration		
Salaries	183,232	217,871
Retirement and employee benefits	52,562	55,585
Professional and consulting fees	79,686	146,567
Legal publications	10,682	13,200
Dues and memberships	9,468	9,891
Communication	1,073	1,215
Maintenance	247	411
Miscellaneous	3,414	3,443
	<u>340,364</u>	<u>448,183</u>
Total operating expenses	<u>6,691,410</u>	<u>6,437,680</u>
Operating income	1,813,392	1,562,031

See notes to financial statements.

WEST DES MOINES WATER WORKS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - CONTINUED

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
NON-OPERATING REVENUES		
Interest	\$ 343,289	\$ 132,424
Bond premium	2,448	204
Rental	<u>111,862</u>	<u>106,475</u>
Total non-operating revenues	457,599	239,103
NON-OPERATING EXPENSES		
Interest	1,235,075	1,190,724
Bond discount	9,206	87,804
Bond issue costs	14,300	61,451
Loss on sale of fixed assets	<u>4,789</u>	<u>2,360</u>
Total non-operating expenses	<u>1,263,370</u>	<u>1,342,339</u>
Income before contributions	1,007,621	458,795
CAPITAL CONTRIBUTIONS	<u>140,092</u>	<u>344,194</u>
CHANGE IN NET ASSETS	1,147,713	802,989
NET ASSETS AT BEGINNING OF YEAR	<u>39,989,516</u>	<u>39,186,527</u>
NET ASSETS AT END OF YEAR	<u>\$ 41,137,229</u>	<u>\$ 39,989,516</u>

See notes to financial statements.

WEST DES MOINES WATER WORKS

STATEMENTS OF CASH FLOWS

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 8,590,598	\$ 7,752,087
Cash payments for goods and services	(2,946,710)	(2,716,938)
Cash payments to employees	<u>(1,797,139)</u>	<u>(1,782,024)</u>
Net cash provided by operating activities	<u>3,846,749</u>	<u>3,253,125</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(2,081,791)	(1,645,383)
Deposits - shared water tower	61,021	-
Payment to City Hall agreement	-	(166,761)
Proceeds from issuance and refunding of revenue bonds	-	5,650,099
Principal paid on revenue bonds	(1,032,955)	(6,008,941)
Bond discount and bond issuance fees	-	(135,563)
Bond premium	-	32,028
Water revenue bond fund deposit	(862)	(282)
Deferred interest on bond refunding	356,783	(356,783)
Interest paid	<u>(1,238,727)</u>	<u>(1,199,261)</u>
Net cash used by capital and financing activities	<u>(3,936,531)</u>	<u>(3,830,847)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	247,187	113,581
Rental income	<u>111,862</u>	<u>106,475</u>
Net cash provided by investing activities	<u>359,049</u>	<u>220,056</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	269,267	(357,666)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>10,551,901</u>	<u>10,909,567</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u><u>\$ 10,821,168</u></u>	<u><u>\$ 10,551,901</u></u>

See notes to financial statements.

WEST DES MOINES WATER WORKS
STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 1,813,392	\$ 1,562,031
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,917,342	1,896,668
Decrease (increase) in assets:		
Accounts receivable	87,191	(234,947)
Inventory	(1,395)	(12,676)
Unexpired insurance	(1,644)	(7,789)
Increase (decrease) in liabilities:		
Customer deposits	2,259	6,679
Accounts payable	18,129	21,064
Accrued payroll	2,901	15,685
Accrued vacation	11,593	(7,142)
Accrued sales tax	<u>(3,019)</u>	<u>13,552</u>
Total adjustments	<u>2,033,357</u>	<u>1,691,094</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,846,749</u>	<u>\$ 3,253,125</u>
Schedule of noncash capital and related financing - Contributions of water mains from contractors for construction, and equipment contributions.	\$ 140,092	\$ 344,194

See notes to financial statements.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The West Des Moines Water Works was established by the City of West Des Moines, Iowa to supply water to the City and its inhabitants. Since November 7, 1950, the Water Works has been under the management and control of a Board of Trustees and the accounts of the Water Works are maintained separately from those of the City of West Des Moines, Iowa. The Code of Iowa, Chapter 388, states that the Board of Trustees has the oversight responsibility for the management and control of the Water Works.

Water Works is exempt from federal income tax pursuant to Internal Revenue Code Section 115 which provides for exemption of divisions of state and local governments.

B. Fund Accounting

The accounts of the Water Works are organized on the basis of funds or groups of accounts. Each fund or group of accounts is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of accounts for cash and investment balances, receipts and disbursements. A description of each of the existing funds is set forth as follows:

Water Revenue Fund

The Water Revenue Fund is the general operating fund of the Water Works. This fund is used to account for the utility services which are financed and operated primarily from user charges to the general public.

Bond Retirement Fund

The Bond Retirement Fund is used to provide and account for principal and interest payments on the water revenue bonds issued.

Trust Fund

The Trust Fund has been established to account for deposits received from customers.

C. Cash

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid with maturities of three months or less are considered to be cash equivalents.

D. Investments

The cash balances of the Water Works are pooled and invested. Investments are stated at cost, which approximates market value. Interest is recorded in the fund owning the investment and transferred to the Water Revenue Fund. In order to obtain a high rate of return, some investments are pooled.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Accounts Receivable

Accounts receivable and revenues are recorded at the time that service is billed. Unbilled revenues for service consumed between periodic scheduled billing dates are not considered to have a material effect on the financial statements.

F. Inventories

Proprietary fund type inventories of materials and supplies are valued at the lower of cost (average cost) or market.

G. Property, Plant and Equipment

Property, plant and equipment are stated at cost or at the value of the contributions to the Water Works for mains and hydrants by developers. Depreciation is computed on the straight-line basis over estimated useful lives of five to fifty years.

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments are capitalized.

The cost and related accumulated depreciation on property, plant and equipment sold or retired are eliminated from the accounts at the time of sale or retirement and the resulting gain or loss is reflected in operations.

H. Budget

In accordance with the Code of Iowa, the Water Works adopted a budget based upon anticipated expenditures by line item for operations. The budget was prepared on an accrual basis which is consistent with generally accepted accounting principles.

I. Sanitary Sewer and Solid Waste Service

The West Des Moines Water Works bills and collects sanitary sewer service charges and solid waste charges in accordance with the city ordinances for the City of West Des Moines, Iowa.

Sanitary sewage is collected in sewers owned by the City of West Des Moines, Iowa, and is treated at the Wastewater Reclamation Authority (WRA) sewage treatment plant. Remittances are due to the City within seventy-five days after the end of each billing period. The West Des Moines Water Works is reimbursed for a portion of the expense of billing and collecting the sanitary sewer service and solid waste charges at rates agreed upon by the City of West Des Moines and West Des Moines Water Works.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. Basis of Accounting

The Proprietary fund types are reported using the accrual basis of accounting. Their revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues and expenses: Operating revenues include revenues resulting from the sale of water and related services. Operating expenses include expenses for water treatment, distribution, depreciation, customer accounts, customer service and informational, sales, and administrative and general. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities, and investing activities. Revenues from the sale of water are based on billing rates, which are applied to customer's consumption of water.

The Water Works applies all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedures. In addition, Water Works may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

K. Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Water Works' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 2 - CASH AND INVESTMENTS

The West Des Moines Water Works deposits in financial institutions as of December 31, 2005 and through the year are covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C, Code of Iowa. This Chapter provides additional assessments against the depositories to ensure that there is no loss of public funds.

As of December 31, 2005, \$300,000 was invested in a twelve month certificate of deposit at John Deere Community Credit Union. The amount of this deposit in excess of \$100,000 was collateralized with a letter of credit held by the Water Works in the amount of 110% or \$220,000.

The West Des Moines Water Works investments are categorized to give an indication of the level of risk assumed by the Water Works at year's end. The West Des Moines Water Works investments are all category 1, which means that the investments are insured or registered or the securities are held by the West Des Moines Water Works or its agent in the name of the West Des Moines Water Works.

As of December 31, 2005 and 2004 all monies of the West Des Moines Water Works were invested in lawful depositories of the Water Works.

The West Des Moines Water Works cash and investments at December 31, 2005 are as follows:

<u>Cash and Investments</u>	<u>Category</u>	
Cash	1	\$ 3,002,729
Certificates of Deposit	1	7,000,000
Iowa Public Agency Investment Trust	1	<u>818,439</u>
TOTAL		<u>\$ 10,821,168</u>

The West Des Moines Water Works cash and investments at December 31, 2004 are as follows:

<u>Cash and Investments</u>	<u>Category</u>	
Cash	1	\$ 4,141,690
Certificates of Deposit	1	3,900,000
Iowa Public Agency Investment Trust	1	<u>2,510,211</u>
TOTAL		<u>\$ 10,551,901</u>

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005 was as follows:

	<u>Balance 1/01/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/05</u>
Capital assets not being depreciated:				
Land	\$ 592,548	\$ -	\$ -	\$ 592,548
Construction in progress	<u>2,142,398</u>	<u>3,317,981</u>	<u>(5,237,920)</u>	<u>222,459</u>
Total capital assets not being depreciated	<u>2,734,946</u>	<u>3,317,981</u>	<u>(5,237,920)</u>	<u>815,007</u>
Capital assets being depreciated:				
Buildings and structures	\$15,799,123	\$ 3,246,455	\$ -	\$19,038,089
Machinery and equipment	8,129,466	247,571	(7,489)	8,182,948
Mains and hydrants	16,525,611	1,866,127	(194,089)	18,207,092
Mains and hydrants - developers	13,982,080	140,092	(184,646)	14,122,172
Wells	4,748,318	-	-	4,748,318
Meters in service	2,340,253	145,768	-	2,486,021
DMWW plant capacity 5.0 MG	5,000,000	-	-	5,000,000
DMWW plant capacity 1.323 MG	<u>1,819,125</u>	<u>-</u>	<u>-</u>	<u>1,819,125</u>
Total capital assets being depreciated	<u>68,343,976</u>	<u>5,646,013</u>	<u>(386,224)</u>	<u>73,603,765</u>
Less accumulated depreciation for:				
Buildings and structures	4,758,251	353,950	(524)	5,111,677
Machinery and equipment	2,984,444	496,426	(194,089)	3,286,781
Mains and hydrants	3,356,750	339,883	-	3,696,633
Mains and hydrants - developers	4,960,079	279,389	-	5,239,468
Wells	1,424,797	156,558	-	1,581,355
Meters in service	1,193,735	120,657	-	1,314,392
DMWW plant capacity 5.0 MG	968,750	125,000	-	1,093,750
DMWW plant capacity 1.323 MG	<u>204,651</u>	<u>45,478</u>	<u>-</u>	<u>250,129</u>
Total accumulated depreciation	<u>19,851,457</u>	<u>1,917,341</u>	<u>(194,613)</u>	<u>21,574,185</u>
Total capital assets being depreciated, net	<u>48,492,519</u>	<u>3,728,672</u>	<u>(191,611)</u>	<u>52,029,580</u>
Net capital assets	<u>\$51,227,465</u>	<u>\$ 7,046,653</u>	<u>\$(5,429,531)</u>	<u>\$52,844,587</u>

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 3 - CAPITAL ASSETS - CONTINUED

Capital assets activity for the year ended December 31, 2004 was as follows:

	Balance 1/01/04	Increases	Decreases	Balance 12/31/04
Capital assets not being depreciated:				
Land	\$ 587,548	\$ 5,000	\$ -	\$ 592,548
Construction in progress	<u>196,997</u>	<u>2,000,484</u>	<u>(55,083)</u>	<u>2,142,398</u>
Total capital assets not being depreciated	<u>784,545</u>	<u>2,005,484</u>	<u>(55,083)</u>	<u>2,734,946</u>
Capital assets being depreciated:				
Buildings and structures	15,742,740	56,383	-	15,799,123
Machinery and equipment	7,780,272	361,932	(12,738)	8,129,466
Mains and hydrants	16,535,985	-	(10,374)	16,525,611
Mains and hydrants - developers	13,871,605	110,475	-	13,982,080
Wells	4,748,318	-	-	4,748,318
Meters in service	2,182,669	157,584	-	2,340,253
DMWW plant capacity 5.0 MG	5,000,000	-	-	5,000,000
DMWW plant capacity 1.323 MG	<u>1,819,125</u>	<u>-</u>	<u>-</u>	<u>1,819,125</u>
Total capital assets being depreciated	<u>67,680,714</u>	<u>686,374</u>	<u>(23,112)</u>	<u>68,343,976</u>
Less accumulated depreciation for:				
Buildings and structures	\$ 4,392,942	\$ 365,309	\$ -	\$ 4,758,251
Machinery and equipment	2,505,641	489,181	(10,378)	2,984,444
Mains and hydrants	3,030,267	326,483	-	3,356,750
Mains and hydrants - developers	4,683,336	276,743	-	4,960,079
Wells	1,269,396	155,401	-	1,424,797
Meters in service	1,080,662	113,073	-	1,193,735
DMWW plant capacity 5.0 MG	843,750	125,000	-	968,750
DMWW plant capacity 1.323 MG	<u>159,173</u>	<u>45,478</u>	<u>-</u>	<u>204,651</u>
Total accumulated depreciation	<u>17,965,167</u>	<u>1,896,668</u>	<u>(10,378)</u>	<u>19,851,457</u>
Total capital assets being depreciated, net	<u>49,715,547</u>	<u>(1,210,294)</u>	<u>(12,734)</u>	<u>48,492,519</u>
Net capital assets	<u>\$ 50,500,092</u>	<u>\$ 795,190</u>	<u>\$ (67,817)</u>	<u>\$ 51,227,465</u>

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 4 - LONG TERM LIABILITIES

The West Des Moines Water Works entered into an agreement with the Des Moines Water Works for the construction of the Louise P. Moon Storage and Pumping Facility (f.k.a. the Westside Storage and Pumping Facility). Per the Water Service Enhancement Master Agreement dated April 12, 1993 (as amended), the West Des Moines Water Works' proportionate share of the Des Moines Water Works Bonds, Series 2001 issued by the Des Moines Water Works has been reduced to \$3,385,816 from \$3,570,462. This reduction is due to a materials valuation adjustment made in April, 2005. The interest rates on the bonds vary from 3.0% to 3.6%.

PURCHASE OF WATER TREATMENT PLANT CAPACITY:

- A. The West Des Moines Water Works entered into an agreement with the Des Moines Water Works for the purchase of five million gallons per day of water treatment plant capacity. Per the Water Treatment Plant Purchased Capacity Master Agreement dated July 23, 1996, the West Des Moines Water Works proportionate share of the Des Moines Water Works Bonds, Series 1997 issued by the Des Moines Water Works is \$5,640,000. The interest rates on the bonds vary from 5.25% to 5.40%.

Series 1997 has been replaced by the Refunding Water Revenue Bonds Series 2004B. In order to reduce interest costs, the Des Moines Water Works issued Refunding Water Revenue Bonds Series 2004B effective December 1, 2004 to carry out an advance refunding of callable maturities from their Series 1997 Bonds. The interest rates on the bonds vary from 2.5% to 4.0%. An adjustment for the bond refunding has been reflected in the 2004 financial statements as an addition to liabilities in the amount of \$183,380 for an increase in the bond principal, an addition to other liabilities in the amount of \$24,982 for the bond premium, an addition to other assets for the deferred amount on bond refunding in the amount of \$172,402, and an addition to other assets for the bond issuance costs of \$35,960 on December 1, 2004. As of December 31, 2005 the bond premium, deferred amount on bond refunding, and bond issuance costs are recorded net of 2005 amortization.

- B. The West Des Moines Water Works entered into the First Amendment to Acceptance of Purchased Capacity Master Agreement on May 23, 2000. West Des Moines Water Works agreed to pay for additional capacity of 1.323 million gallons per day by assumption of \$1,819,125 of the Des Moines Water Works' outstanding obligation under the 1997 Bond Issue. The interest rates on the bonds vary from 5.25% to 5.40%.

Series 1997 has been replaced by the Refunding Water Revenue Bonds Series 2004B. In order to reduce interest costs, the Des Moines Water Works issued Refunding Water Revenue Bonds Series 2004B effective December 1, 2004 to carry out an advance refunding of callable maturities from their Series 1997 Bonds. The interest rates on the bonds vary from 2.5% to 4.0%. An adjustment for the bond refunding has been reflected in the 2004 financial statements as an addition to liabilities in the amount of \$51,719 for an increase in the bond principal, an addition to other liabilities in the amount of \$7,046 for the bond premium, an addition to other assets for the deferred amount on bond refunding in the amount of \$48,623, and an addition to other assets for the bond issuance costs of \$10,142 on December 1, 2004. As of December 31, 2005 the bond premium, deferred amount on bond refunding, and bond issuance costs are recorded net of 2005 amortization.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 4 - LONG TERM LIABILITIES - CONTINUED

The Water Revenue Bonds, Series 1998A, 1998B, and 2004 Revenue Refunding were issued by the West Des Moines Water Works, under resolutions of the Board of Trustees of the Water Works. The following is a summary of the major provisions and restrictions of the resolutions.

Interest is payable on the first day of June and December.

Bonds and interest are payable from the future net earnings of the Water Works and the net earnings of the Water Works are pledged to the payment of the bonds and interest.

The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next interest payment date on the then outstanding Bonds and Parity Bonds plus 1/12th of the installment of principal coming due on such Bonds on the next succeeding principal payment date until the full amount of such installment is on hand. The balance at December 31, 2005 and 2004 is \$127,013 and \$132,921.

The Bond Resolution requires that the Debt Service Reserve Fund be maintained in an amount equal to at least the lesser of the maximum annual debt service on the Bonds and the Parity Bonds, or 10% of the stated principal amount of the Bonds and Parity Bonds. The balance at December 31, 2005 and 2004 is at the maximum of \$1,605,910 and \$1,605,910, respectively.

In the Future Capital Outlay Fund, the minimum amount to be deposited in the Fund each month shall be \$30,000; provided, however, that when the amount in said fund shall equal or exceed \$750,000, no further monthly deposits need be made into the Fund except to maintain it at such level. The balance at December 31, 2005 and 2004 is \$2,798,057 and \$2,395,394.

Changes in long-term obligations for the year ended December 31, 2005 are as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Water Revenue Bonds					
Series 1998A	\$ 1,505,000	\$ -	\$ (75,000)	\$ 1,430,000	\$ 80,000
Series 1998B	6,870,000	-	(555,000)	6,315,000	580,000
Series 2004 Refunding	5,415,000	-	(50,000)	5,365,000	50,000
Series 2001 (DMWW)	836,869	-	(406,219)	430,650	227,241
Series 2004B (DMWW)	5,498,380	-	(46,553)	5,451,827	51,725
Series 2004B (DMWW)	1,550,719	-	(84,829)	1,465,890	90,002
	<u>\$21,675,968</u>	<u>\$ -</u>	<u>\$ (1,217,601)</u>	<u>\$20,458,367</u>	<u>\$1,078,968</u>

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 4 - LONG TERM LIABILITIES - CONTINUED

Details of the revenue bonds payable at December 31, 2005 are as follows:

	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding Dec. 31, 2005
Series 1998A WRB	05/01/98	4.7 - 5.25%	12/01/18	\$150,000-\$156,000	\$ 2,000,000	\$ 1,430,000
Series 1998B WRB	05/01/98	4.7 - 5.15%	12/01/14	\$555,000-\$850,000	10,040,000	6,315,000
Series 2004 WRB	04/01/04	2.0 - 3.9%	12/01/16	\$241,000-\$791,000	5,415,000	5,365,000
Series 2001 WRB (DMWW)	10/01/01	3.0 - 3.6%	12/01/07	\$270,000-\$312,000	1,617,929	430,650
Series 2004B WRB (DMWW)	12/01/04	2.5 - 4.0%	12/01/16	\$239,000-\$753,000	5,498,380	5,451,827
Series 2004B WRB (DMWW)	12/01/04	2.5 - 4.0%	12/01/17	\$138,000-\$167,000	1,550,719	<u>1,465,890</u>
Total						<u>\$20,458,367</u>

A summary of the annual revenue bonds principal and interest requirements to maturity is as follows:

Year Ending Dec. 31,	Principal	Interest	Total
2006	\$ 1,078,968	\$ 829,490	\$ 1,908,458
2007	1,116,343	786,209	1,902,552
2008	1,351,218	740,220	2,091,438
2009	1,917,253	687,720	2,604,973
2010	2,038,288	616,989	2,655,277
2011-2015	10,774,725	1,787,724	12,562,449
2016-2018	<u>2,181,572</u>	<u>120,643</u>	<u>2,302,215</u>
Totals	<u>\$20,458,367</u>	<u>\$ 5,568,995</u>	<u>\$26,027,362</u>

Changes in long-term obligations for the year ended December 31, 2004 are as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Water Revenue Bonds					
Series 1997	\$ 5,000,000	\$ -	\$ (5,000,000)	\$ -	\$ -
Series 1998A	1,580,000	-	(75,000)	1,505,000	75,000
Series 1998B	7,405,000	-	(535,000)	6,870,000	555,000
Series 2004 Refunding	-	5,415,000	-	5,415,000	50,000
Series 2001 (DMWW)	1,107,810	-	(270,941)	836,869	284,305
Series 2004B (DMWW)	5,365,000	183,380	(50,000)	5,498,380	46,553
Series 2004B (DMWW)	<u>1,577,000</u>	<u>51,719</u>	<u>(78,000)</u>	<u>1,550,719</u>	<u>84,829</u>
	<u>\$22,034,810</u>	<u>\$5,650,099</u>	<u>\$ (6,008,941)</u>	<u>\$21,675,968</u>	<u>\$1,095,687</u>

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 4 - LONG TERM LIABILITIES - CONTINUED

Details of the revenue bonds payable at December 31, 2004 are as follows:

	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding Dec. 31, 2004
Series 1998A WRB	05/01/98	4.7 - 5.25%	12/01/18	\$150,000-\$156,000	\$ 2,000,000	\$ 1,505,000
Series 1998B WRB	05/01/98	4.7 - 5.15%	12/01/14	\$555,000-\$850,000	10,040,000	6,870,000
Series 2004 WRB	04/01/04	2.0 - 3.9%	12/01/16	\$241,000-\$791,000	5,415,000	5,415,000
Series 2001 WRB (DMWW)	10/01/01	3.0 - 3.6%	12/01/07	\$270,000-\$312,000	1,617,929	836,869
Series 2004B WRB (DMWW)	12/01/04	2.5 - 4.0%	12/01/16	\$239,000-\$753,000	5,498,380	5,498,380
Series 2004B WRB (DMWW)	12/01/04	2.5 - 4.0%	12/01/17	\$138,000-\$167,000	1,550,719	<u>1,550,719</u>
Total						<u>\$21,675,968</u>

A summary of the annual revenue bonds principal and interest requirements to maturity is as follows:

Year Ending Dec. 31,	Principal	Interest	Total
2005	\$ 1,095,687	\$ 876,604	\$ 1,972,291
2006	1,143,297	833,750	1,977,047
2007	1,173,928	788,276	1,962,204
2008	1,351,218	740,220	2,091,438
2009	1,917,253	687,720	2,604,973
2010-2014	11,125,412	2,245,523	13,370,935
2015-2018	<u>3,869,173</u>	<u>279,833</u>	<u>4,149,006</u>
Totals	<u>\$21,675,968</u>	<u>\$ 6,451,926</u>	<u>\$28,127,894</u>

NOTE 5 - RESTRICTED ASSETS

The West Des Moines Water Works' restricted assets are composed of customer deposits, deposits on bond issuance, funds restricted for capital improvements and collections for sanitary sewer service, solid waste service, and human services donations for the City of West Des Moines.

NOTE 6 - PENSION AND RETIREMENT BENEFIT

The Water Works contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 6 - PENSION AND RETIREMENT BENEFIT - CONTINUED

Plan members are required to contribute 3.70% of their annual salary and the Water Works is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Water Works contribution to IPERS for the years ended December 31, 2005, 2004, and 2003 was \$101,948, \$96,609, and \$87,455 equal to the required contributions for each year.

NOTE 7 - COMPENSATED ABSENCES

The West Des Moines Water Works' employees accumulate vacation benefits for subsequent use or payable on termination, death or retirement. These accumulations are recorded as liabilities and expenses in the year earned.

The West Des Moines Water Works does not accrue a liability related to the accumulation of sick leave, because its policy states that the amounts are payable only on retirement. Therefore, individual payment is not necessarily probable and is not subject to estimation.

NOTE 8 - DEFERRED COMPENSATION PLAN

West Des Moines Water Works offers to all of its full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available for payment to employees until termination, retirement, death, or unforeseeable emergency.

West Des Moines Water Works implemented Governmental Accounting Standards Board Statements No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which requires assets of a governmental sponsored 457 plan to be held in a trust for the exclusive benefit of participants and their beneficiaries. Internal Revenue Code Section 457(g)(3) as amended, provides that an annuity contract described in Code Section 401(f) shall be treated as a trust.

The 457 plan administrators prepared amendments to the existing contracts to meet the requirements of Code Section 401(f). The amendments also provide that the assets and income of the contracts are for the exclusive benefit of the plan participants or beneficiaries, and would not be subject to the claims of the governmental employer's creditors. Accordingly, these plan assets are not reported in the Water Works' financial statements.

NOTE 9 - JOINT VENTURE

On May 14, 2001 the Water Works approved the first amendment to intergovernmental agreement for the joint occupation of municipal offices (Chapter 28E of the Code of Iowa) with the City of West Des Moines for joint occupancy in a new City Hall facility. The West Des Moines Water Works' total cost is \$546,761, of which \$546,761 has been paid. Balance on the obligation at December 31, 2005 and 2004 was \$-0- and \$166,761, respectively.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 9 - JOINT VENTURE - CONTINUED

On May 14, 1993 the Water Works entered into an intergovernmental agreement (Chapter 28E of the Code of Iowa) with the City of West Des Moines and the Park Board of Commissioners of the West Des Moines Parks and Recreation Department. Under the agreement, they jointly developed a parcel of land (58 acres) owned by the City to provide recreation resources and water resources for residents. The Water Works constructed eight shallow wells and one deep well on the site. The Water Works has paid the City \$450,000 for the use of the land. This agreement is for ninety-nine years and expires on May 14, 2092.

On November 12, 2001 the Water Works entered into an amended and substituted intergovernmental agreement (Chapter 28E of the Code of Iowa) for the purpose of (1) creating the Central Iowa Committee to succeed the Urban Standard Specifications Committee; (2) authorizing the Central Iowa Committee to temporarily license said urban design standards and urban standard specifications to the Center for Transportation Research and Education (CTRE) and to the Iowa Department of Transportation (Iowa DOT); (3) authorizing the Central Iowa Committee to assign said urban design standards and urban standard specifications to a statewide organization to be formed to oversee the continuing development and upgrading thereof; and (4) authorizing the City of Des Moines, as administrator, to assign to CTRE its consultant contract with Snyder and Associates for the provision of professional services. Under the agreement design standards will be developed and updated, and standard specifications for the construction of public improvements will be developed.

On November 20, 2003 the Water Works entered into an Agreement for Shared Use of Water Tower Capacity (this is not a 28E agreement) with the City of Clive, the City of Waukee and the Des Moines Water Works. On November 1, 2005 that water tower was put into service. The cities of Clive and Waukee pay 40% and 20% respectively, of the total project cost to West Des Moines Water Works for shared capacity of the water tower. The water tower is recorded at cost on West Des Moines Water Works' fixed asset schedule, and the payments made by Clive and Waukee are recorded as a deferred revenue liability to be recognized over the 50 year life of the water tower. This agreement will remain in effect through the useful life of the water tower plus one year. A shared water tower fund has been created into which Clive, Waukee and West Des Moines Water Works contribute annually for property insurance and future painting of the tower.

On November 1, 2005 the Water Works entered into intergovernmental (Chapter 28E of the Code of Iowa) agreements for meter reading services with the City of Clive and the City of Waukee. West Des Moines Water Works will read water meters for Clive and water and gas meters for Waukee. The initial term of these agreements is three years from November 1, 2005. Thereafter, the term of services shall automatically renew for successive three year terms on each November 1st unless either party shall give written notice of termination to the other.

NOTE 10 - RELATED ORGANIZATION

The West Des Moines Water Works uses services of the City of West Des Moines and also provides billing and collection services to the City in connection with the City's Sewer and Solid Waste Enterprise Funds. The following is a summary of the related party transactions for the year ended December 31, 2005 and 2004:

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 10 - RELATED ORGANIZATION - CONTINUED

	Amount <u>2005</u>	Amount <u>2004</u>
Received from the City of West Des Moines		
Miscellaneous	\$ 1,124	\$ 835
Iowa One Call	4,657	4,152
Sanitary sewer service collection fees	42,845	41,590
Solid waste service collection fees	40,463	39,991
Payments to the City of West Des Moines		
Sanitary sewer service	\$5,102,329	\$4,970,704
Solid waste service	1,343,468	1,327,110
Sewer availability fee	27,320	-
City capital fee	22,978	-
Health and dental insurance premiums	276,382	228,981
General insurance premiums	112,966	108,224
Gasoline	22,573	17,257
Utilities	13,790	14,065
Joint occupancy	-	166,761
Miscellaneous	2,482	2,030
Donations collected	7,062	6,777
Janitorial services	9,210	7,741
Information services	35,000	35,000
West Des Moines Magazine	1,500	3,000
Phone system upgrade	-	9,786
Office partitions/shelves	-	9,410
Recruitment expenses	4,438	5,014
Computers/Network server	-	5,310
Wellfield site restoration	-	5,000
Railroad Avenue reconstruction	498,212	-

Amounts payable to the City of West Des Moines at December 31, 2005 for sanitary sewer charges, sewer availability fees, city capital fees, solid waste charges and donations to human services totaled \$1,238,313, \$24,508, \$8,145, \$339,547 and \$1,171 respectively and for 2004, \$1,226,581, \$0, \$0, \$335,045 and \$881 respectively.

NOTE 11 - RISK MANAGEMENT

The Water Works, through the City of West Des Moines, is a member of the Iowa Communities Assurance Pool (Pool), as allowed by Chapter 384.12 of the Code of Iowa. The Pool is a local government risk-sharing pool whose 520 members include various governmental entities throughout the state of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 11 - RISK MANAGEMENT - CONTINUED

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Water Works' property and casualty contributions to the Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. The Water Works' annual contributions to the Pool for the year ended December 31, 2005 were \$42,795.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Water Works does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at December 31, 2005, no liability has been recorded in the Water Works' financial statements. As of June 30, 2005 settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. After the sixth year, the member is refunded 100% of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 11 - RISK MANAGEMENT - CONTINUED

The Water Works also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation, and employee blanket bonds. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 - TOWER LEASE AGREEMENTS

The Water Works has entered into agreements with T-Mobile USA, Inc., United States Cellular Wireless Communications, Sprint Spectrum, L.P., Capital Communications Company, Inc., Nextel WIP Lease Corporation, Telecorp Realty, L.L.C., and Verizon Wireless for the rental of space on two elevated water storage facilities located in the City of West Des Moines. The agreements are for a period of five years. The agreement with Sprint Spectrum L.P. has a renewal option of four additional five year terms and the other agreements have the renewal option of five additional five year terms.

Future minimum rents under these leases at December 31, 2005 are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$115,781
2007	119,077
2008	124,845
2009	125,886
2010	128,354

Total rental income for 2005 was \$111,863.

NOTE 13 - DEFEASANCE OF DEBT

In current and prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements. At December 31, 2005, the remaining balance of previously issued bonds outstanding are considered defeased.

<u>Obligation</u>	<u>Date</u>	<u>Defeased Balance</u>
1995 Water Revenue Bonds	1-05-95	\$6,175,000
1997 Water Revenue Bonds	9-01-97	5,000,000

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2005 and 2004

NOTE 13 - DEFEASANCE OF DEBT - CONTINUED

The 1995 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$697,598. This difference was charged to operations through the year 2002 using the effective interest method.

The 1997 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt for West Des Moines Water Works of \$256,962 and for Des Moines Water Works of \$221,025. This difference was charged to operations through the year 2005 using the effective interest method. The remaining balance as of December 31, 2005 was \$0 and \$0 respectively.

NOTE 14 - UNION AGREEMENT

The West Des Moines Water Works entered into an agreement as of January 1, 200 with the American Federation of State, County and Municipal Employees Council 61 and Local 3673-15 (AFL-CIO). This agreement remained in full force and effect through December 31, 2005.

NOTE 15 - RECLASSIFICATION

Certain reclassifications have been made to the prior period financial statements to make them comparable to the current period financial statements.

NOTE 16 - COMMITMENTS

The West Des Moines Water Works has entered into construction contracts totaling \$3,859,353 at December 31, 2005 and \$3,404,952 at December 31, 2004 for various capital projects. There were \$1,104,666 and \$653,728 of uncompleted contracts at December 31, 2005 and 2004 respectively.

On August 30, 2004 West Des Moines Water Works wrote a binding letter of intent to purchase two million gallons per day additional capacity in Des Moines Water Works' system at a rate of \$1.90 per gallon. This purchase will occur in 2006.

On September 27, 2004 the U.S. Environmental Protection Agency (EPA) awarded the Water Works a grant for the operation of the Groundwater Remedial Action at the Railroad Avenue Superfund Site. Activities include the cleanup of contaminated groundwater and monitoring and administration of the aerators. The project period is from January 1, 2005 through December 31, 2011. The total project cost is projected to be approximately \$513,000. The EPA has approved partial funding up to and not exceeding \$350,000 at this time.

REQUIRED SUPPLEMENTARY INFORMATION

WEST DES MOINES WATER WORKS

BUDGETARY COMPARISON OF REVENUES, EXPENSES AND CHANGES IN BALANCES - ACTUAL TO BUDGET

Year ended December 31, 2005

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
TOTAL REVENUES	\$ 9,102,493	\$ 8,047,190	\$ 1,055,303
TOTAL EXPENSES	<u>7,954,780</u>	<u>8,045,101</u>	<u>90,321</u>
NET	1,147,713	2,089	<u>\$ 1,145,624</u>
BALANCE BEGINNING OF YEAR	<u>39,989,516</u>	<u>39,193,054</u>	
BALANCE END OF YEAR	<u>\$ 41,137,229</u>	<u>\$ 39,195,143</u>	

See notes to financial statements.

WEST DES MOINES WATER WORKS

NOTE TO BUDGETARY REPORTING

December 31, 2005

In accordance with the Code of Iowa, the Water Works' Board of Trustees adopts a budget on the accrual basis consistent with U.S. generally accepted accounting principles following required public notice and hearing. The formal and legal level of control is at the total expense level. The Board of Trustees reviews the proposed budget and grants final approval. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

In 2005 there were no budget amendments and disbursements did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES

Year ended December 31, 2005

Proportionate share of the Series 2001 Water Revenue Refunding Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per Water Service Enhancement Master Agreement for the Westside Storage Project dated April 12, 1993 (as amended) (see Note 4).

The following is a summary of the debt obligations to the Des Moines Water Works:

<u>Maturing December 1</u>	<u>Des Moines Water Works</u>	
	<u>Series 2001 Water Revenue Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 227,241	\$ 15,049
2007	<u>203,409</u>	<u>7,323</u>
	<u>\$ 430,650</u>	<u>\$ 22,372</u>

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2005

Proportionate share of Series 2004B Water Revenue Refunding Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per Water Treatment Plant Purchased Capacity Master Agreement dated July 23, 1996 (See Note 4).

The following is a summary of the debt obligations to the Des Moines Water Works:

<u>Maturing December 1</u>	<u>Des Moines Water Works</u>	
	<u>Series 2004B Water Revenue Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 51,725	\$ 191,499
2007	82,760	190,206
2008	475,871	187,723
2009	501,734	173,447
2010	527,596	158,395
2011	553,459	142,568
2012	584,494	125,964
2013	615,529	106,968
2014	651,736	82,346
2015	682,771	56,277
2016	724,152	28,966
	<u>\$ 5,451,827</u>	<u>\$1,444,359</u>

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2005

Proportionate share of Series 2004B Water Revenue Refunding Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per First Amendment to Acceptance of Purchased Capacity Master Agreement dated May 23, 2000 (See Note 4).

The following is a summary of the debt obligations to the Des Moines Water Works:

<u>Maturing December 1</u>	<u>Des Moines Water Works</u>	
	<u>Series 2004B Water Revenue Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 90,002	\$ 51,076
2007	95,174	48,826
2008	100,347	45,971
2009	105,519	42,960
2010	110,692	39,795
2011	116,899	36,474
2012	123,106	32,967
2013	130,347	28,966
2014	136,554	23,752
2015	144,830	18,290
2016	152,072	12,497
2017	160,348	6,413
	<u>\$ 1,465,890</u>	<u>\$ 387,987</u>

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2005

Series 1998A Water Revenue Bonds: Series 1998A Water Revenue Bonds were issued under Resolutions adopted by the Board of Trustees.

The proceeds of the Bonds were used to finance certain capital improvements to the System (the "Project") and to pay costs of issuing the Series 1998A Bonds. The Project included: (i) upgrades to the Water Works' water treatment plant and water storage facilities and (ii) construction of a new pumping station. The Refunding Bonds were issued to refund all or a portion of the Water Works' outstanding Water Revenue Bonds Series 1995 (the "Refunded Bonds"). The original date of issue was May 1, 1998 (See Note 4).

<u>Maturing December 1</u>	<u>West Des Moines Water Works</u>	
	<u>Series 1998A Water Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 80,000	\$ 71,872
2007	85,000	68,112
2008	90,000	64,117
2009	95,000	59,887
2010	95,000	55,375
2011	100,000	50,767
2012	110,000	45,767
2013	115,000	40,268
2014	120,000	34,402
2015	125,000	28,223
2016	130,000	21,723
2017	140,000	14,962
2018	145,000	7,612
	<u>\$ 1,430,000</u>	<u>\$ 563,087</u>

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2005

Series 1998B Water Revenue Bonds: Series 1998B Water Revenue Bonds were issued under Resolutions adopted by the Board of Trustees.

The proceeds of the Bonds were used to finance certain capital improvements to the System (the "Project") and to pay costs of issuing the Series 1998B Bonds. The Project included: (i) upgrades to the Water Works' water treatment plant and water storage facilities and (ii) construction of a new pumping station. The Refunding Bonds were issued to refund all or a portion of the Water Works' outstanding Water Revenue Bonds Series 1995 (the "Refunded Bonds"). The original date of issue was May 1, 1998 (See Note 4).

<u>Maturing December 1</u>	<u>West Des Moines Water Works</u>	
	<u>Series 1998B Water Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 580,000	\$ 309,707
2007	600,000	282,448
2008	630,000	254,247
2009	660,000	224,638
2010	695,000	193,287
2011	730,000	159,580
2012	765,000	123,080
2013	805,000	84,830
2014	850,000	43,775
	<u>\$ 6,315,000</u>	<u>\$ 1,675,592</u>

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2005

Series 2004 Water Revenue Refunding Bonds: Series 2004 Water Revenue Refunding Bonds were issued under Resolutions adopted by the Board of Trustees.

The Refunding Bonds were issued to refund all or a portion of the Water Works' outstanding Water Revenue Bonds Series 1997 (the "Refunded Bonds"). The original date of issue was April 1, 2004.

The proceeds of the original Bonds were used to finance certain capital improvements to the System (the "Project") and to pay costs of issuing the Bonds. The Project included: (i) the construction and/or purchase of water supply and distribution facilities and the land for such facilities, (ii) the construction of additional water treatment capacity, (iii) the construction facilities for handling water treatment plant residues, (iv) improvements to the electrical distribution system of the water treatment plant, (v) improvements to the electronic control system of the Water Works and (vi) construction of new and replacement water mains (See Note 4).

The following is a summary of the debt obligations of the West Des Moines Water Works:

<u>Maturing December 1</u>	<u>West Des Moines Water Works</u>	
	<u>Series 2004 Water Revenue Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 50,000	\$ 190,287
2007	50,000	189,288
2008	55,000	188,162
2009	555,000	186,788
2010	610,000	170,137
2011	605,000	150,008
2012	645,000	128,832
2013	640,000	105,290
2014	690,000	81,930
2015	735,000	56,400
2016	730,000	28,470
	<u>\$ 5,365,000</u>	<u>\$ 1,475,592</u>

STATISTICAL SECTION (UNAUDITED)

WEST DES MOINES WATER WORKS

SCHEDULE OF WATER USAGE BY MONTH

Year ended December 31, 2005

(UNAUDITED)

<u>Month</u>	<u>Accounts with Water Service</u>	<u>Dollar Amount of Water Billings</u>	<u>Gallons of Water Billed</u>	<u>Gallons of Water Pumped*</u>
January	19,198	\$ 374,602	124,065,675	154,998,400
February	19,190	349,080	106,890,000	138,984,600
March	19,332	457,749	155,647,000	149,992,200
April	19,401	406,837	136,917,800	164,066,400
May	19,448	445,270	149,690,510	229,202,000
June	19,658	811,606	271,606,718	274,202,400
July	19,641	768,015	255,803,210	331,676,000
August	19,697	741,750	247,886,380	321,521,000
September	19,858	960,301	317,176,800	285,221,000
October	19,733	550,480	177,702,700	211,291,000
November	19,735	465,783	145,692,759	168,531,000
December	<u>19,729</u>	<u>435,362</u>	<u>142,298,541</u>	<u>163,429,000</u>
	<u>234,620</u>	\$ 6,766,835	2,231,378,093	2,593,115,000
ADD:				
Metered water for City (\$0.00)		-	15,339,000	-
Other non-billed water		-	12,262,681	-
Totals		<u>\$ 6,766,835</u>	<u>2,258,979,774</u>	<u>2,593,115,000</u>

* Gallons of Water Pumped totals have been updated to include consumption as metered at the 92nd Street connection to Des Moines Water Works. This metered consumption was not included in prior years.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
West Des Moines Water Works

We have audited the financial statements of West Des Moines Water Works as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated February 8, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether West Des Moines Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the West Des Moines Water Works' operations for the year ended December 31, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Works. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those matters.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Des Moines Water Works' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relations to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the West Des Moines Water Works and other parties to whom the West Des Moines Water Works may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the West Des Moines Water Works during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Martens + Company, CPA, LLP

West Des Moines, Iowa
February 8, 2006

WEST DES MOINES WATER WORKS

SCHEDULE OF FINDINGS

Year ended December 31, 2005

PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS:

- (1) An unqualified opinion was issued on the financial statements.
- (2) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (3) The audit did not disclose any non-compliance which is material to the financial statements.

PART II: OTHER FINDINGS RELATED TO STATUTORY REPORTING:

- (1) Official Depositories - A resolution naming official depositories has been approved by the Water Works. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2005.
- (2) Certified Budget - Disbursements during the year ended December 31, 2005, did not exceed the amount budgeted.
- (3) Questionable Expenditures - We noted no expenditures that we believe did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (4) Travel Expenses - No disbursements of West Des Moines Water Works' money for travel expenses of spouses of West Des Moines Water Works' officials or employees were noted.
- (5) Business Transactions - No business transactions between the West Des Moines Water Works and West Des Moines Water Works' officials or employees were noted.
- (6) Bond Coverage - Surety Bond coverage of West Des Moines Water Works' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure coverage is adequate for current operations.
- (7) Board of Trustees Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.
- (8) Revenue Bonds - The Water Works has established the sinking and reserve accounts as required by the water revenue bond resolutions.
- (9) Deposits and Investments - The West Des Moines Water Works has adopted a written investment policy as required by Chapter 128.10B of the Code of Iowa.